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VOL. CLIII NO. 41 Tuesday, March 1, 1988

Today

CORPORATE FINANCE

Employee stock ownership plans, or ESOPs, borrowed about $5.5 billion in 1987, four times more than in 1986, according to the National Center for Employee Ownership. — 10

Continental Illinois has purchased $50 million in short-term trade receivables from the Mayflower Group Inc. in an unusual transaction to refinance a 1986 leveraged buyout of the moving company. — 10

American Stock Transfer and Trust Co. has received approval from New York State regulators to perform indenture trust services. The company now is preparing to sell such services through regional banks across the country. — 11

Signet Banking Corp., Richmond, Va., has established a unit to lend money to companies with annual sales of $10 million to $500 million. The so-called mezzanine funding will be used primarily to recapitalize companies, to take firms private, and to assist management in leveraged buyouts. — 11

INSIDE

Two influential members of the Senate Banking Committee plan to introduce a measure to close many of the loopholes that have permitted banks to offer insurance products. — 2

The U.S. government awarded contracts to seven banks' cash management units to participate in its expanded lockbox network for federal agencies. — 3

Roslyn B. Payne resigned from her $250,000-per-year post as president and chief operating officer of the controversial Federal Asset Disposition Association. — 3

Bankers in Delaware are monitoring the repercussions of a federal court decision that calls into question the legal status of credit card banks in South Dakota. — 5

Mexico's debt-for-bond swap may have gone better than expected, Third World debt traders and bankers said, citing speculation that the Japanese tendered up to $7 billion in Mexican debt. — 6

The weekly listing of financial services stocks features regional industry groups and price indexes. — 8

James W. Ford retires as executive vice president of the Ford Motor Co., having diversified and expanded the financial services portfolio of the nation's No. 2 automaker. — 16

KEEPING CURRENT

Executive Changes — 15
In the News — 3

Quote/Unquote

I am deeply committed to FADA- . . . . Yet, I feel now is the time for me to go on to other things in my own career.

Roslyn B. Payne on her resignation as president and chief operating officer of the Federal Asset Disposition Association. [Page 3]

An American Banker Survey

Citibank Maintains Its Lead As Top Bank Credit Card Issuer

By MIKE WEINSTEIN
First of a Series

For two years in a row, Citibank and Bank of America have ranked as the first and second biggest issuers of bank cards, according to the *American Banker*'s second annual survey.

Among the top card-issuing banking companies, there were only minor changes from a year earlier.

Marine Midland Bank, Buffalo, and Maryland Bank, Newark, Del., picked up a little ground, while Wells Fargo Bank and Chemical Bank slipped a bit.

But three banks that had ranked high in the first survey — Chase Manhattan Bank, First National Bank of Chicago, and Bank One of Columbus, Ohio — declined to participate in this survey.

Although Maryland Bank moved up only a few notches, accounts increased almost 50%, from about 1.2 million to about 1.8 million. Bruce L. Hammonds, executive vice president at Maryland Bank, attributed the growth to "the acquiring of new accounts, primarily through affinity group marketing."

Top 5 Card Issuers

Of those responding to survey; credit card accounts on 12/31/86 (millions)

1. Citibank (South Dakota)	10.0
2. Bank of America	4.8
3. Manufacturers Hanover	3.3
4. Marine Midland	2.2
5. Wells Fargo	1.8

Source: American Banker

Citibank: Page 2 ➡

Random Thoughts

By SANFORD ROSE

Discussants of bank acquisition strategy sometimes employ rather colorful nomenclature. First Manhattan Consulting Group regaled us some years back with poultry and bird-life images. Thus players in the acquisition game were variously characterized as turkeys, vultures, dead ducks, and eagles

Now along comes the MAC Group with some fish and sea-life allusions that, it feels, more appropriately describe the current environment. Three new sets of bank competitors are said to be emerging from the cauldron of Oct. 19. These include whales, sharks, and dolphins.

Characterized by large asset size, deficient ratios of market value to book value, and profitability and LDC problems, the whales must intensify their efforts to restructure. Yet the very need to restructure may render a large number of the whales for the first time vulnerable to takeover from other market players.

The whales had weak pre-crash market-to-book ratios, and the

Random Thoughts: Page 4 ➡

Court Stalls New Powers For Banks

Securities Units on Hold For at Least 3 Months

By JED HOROWITZ

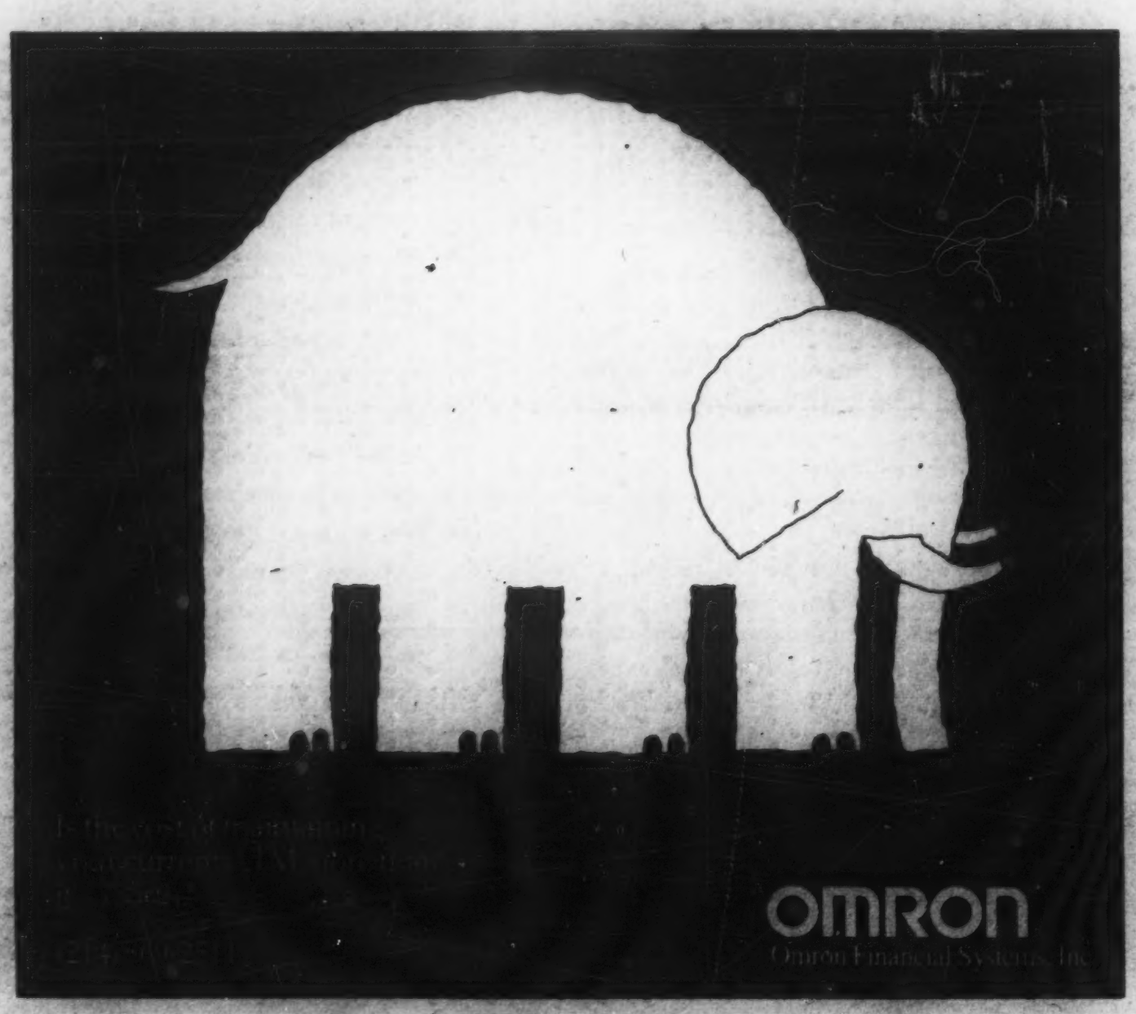
NEW YORK — An eleventh-hour ruling by an appeals court on Monday indefinitely halted plans by several banking companies to exercise new securities powers today.

The decision by the U.S. Court of Appeals for the Second Circuit in New York will delay launch of the new activities for a minimum of three months, bank attorneys said. It also could drive some banks to consider more radical approaches to investment banking, such as dropping their membership in the Federal Reserve Board in order to operate under more liberal guidelines.

The court postponed lifting a stay that would have permitted 11 bank companies to launch new securities activities through subsidiaries. These activities include underwriting and dealing in commercial paper, municipal revenue bonds, and securities backed by mortgages and consumer loans. Several of the banks were poised to launch the activities today, when a one-year congressional moratorium on new powers for banks expires.

The New York court on Feb. 8 upheld a Federal Reserve decision that authorized bank companies to conduct the new securities activities through nonbank subsidiaries. But to implement its decision, the court had to issue a "mandate" lifting a stay it imposed last May when the Securities Industry Association challenged the Fed decision. On Monday, it agreed to delay issuing the mandate until March 15, giving the securities trade group time to ask the Supreme Court to review the

Court: Page 14 ➡



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Citibank Remains No. 1 Issuer of Bank Credit Cards

Continued from Page 1

Maryland Bank is a leader in affinity group marketing, which bankers expect to be the best source of new accounts in 1988, according to the *American Banker*'s survey.

An affinity group program enables a bank to market credit cards to consumers with a common bond, such as the same alma mater, professional association, or frequent-flier group. The sponsoring organization typically endorses the bank's card in return for some financial compensation from the bank based on members' acceptance or use of the card.

At other top card-issuing banks, growth was more modest, with the percentage increase in accounts ranging from single digits to the low teens.

Last June, the *American Banker* mailed 110 questionnaires to the nation's biggest financial institutions and top credit card banks. Sixty responses were received by mail or by telephone in the next several months. The data reflect results as of yearend 1986.

The proliferation of credit cards from 1983 to 1985 has made it more difficult for banks to find new, creditworthy accounts.

"You see some growth in accounts because of [home] equity lines," said Jerry D. Craft, senior vice president at First National Bank of Atlanta.

Many banks have begun offering credit cards as a way for consumers to gain access to their home equity lines of credit, which are basically second mortgages in the form of a revolving credit line.

Mr. Craft also detects a squeeze on medium-size card issuers.

"I think the bigger banks are growing faster than the industry as a whole," he said. And newcomers to the business, such as thrifts and credit unions, are pressuring the midsize banks from below.

"The big get bigger, and you also have new, smaller players," Mr. Craft said.

Next: Bankers pin their hopes on affinity-card marketing.

How the Top Issuers Fared

Changes in ranking of those responding to survey

	1987 Rank	1986 Rank
Citibank (South Dakota), Sioux Falls	1	1
Bank of America, San Francisco	2	2
Chase Manhattan Bank (USA), Wilmington, Del.	NR	3
First National Bank of Chicago	NR	4
Manufacturers Hanover Trust Co., New York	3	5
Marine Midland Bank, Buffalo	4	7
Wells Fargo Bank, San Francisco	5	6
Maryland Bank, Newark, Del.	6	10
Chemical Bank, New York	7	8
Bank One, Columbus, Ohio	NR	9
Associates National Bank, San Ramon, Calif.	8	11
Rocky Mountain BankCard System Inc., Denver	9	13
First National Bank of Atlanta	10	12

NR: No response.

Top Bank Card Issuers

Of those responding to survey

	Total Credit Card Accounts (12/31/86)
1. Citibank (South Dakota), Sioux Falls	10,000,000
2. Bank of America, San Francisco	4,801,000
3. Manufacturers Hanover Trust Co., New York	3,308,000
4. Marine Midland Bank, Buffalo	2,200,000
5. Wells Fargo Bank, San Francisco	1,800,000
6. Maryland Bank, Newark, Del.	1,800,000
7. Chemical Bank, New York	1,500,000[1]
8. Associates National Bank, Pleasanton, Calif.	1,240,000
9. Rocky Mountain BankCard System Inc., Denver	1,122,000
10. First National Bank of Atlanta	1,100,000
11. MBank USA, Wilmington, Del.	1,044,000
12. Security Pacific National Bank, Los Angeles	1,026,000
13. First City Bank - Sioux Falls, Sioux Falls, S.D.	989,000
14. Signet Bank, Richmond, Va.	912,000
15. NCNB, Greensboro, N.C.	894,000
16. Mellon Bank (Delaware), Wilmington	856,000
17. First Interstate Bank of California, Los Angeles	830,000
18. First RepublicBank Dallas	802,000
19. Seattle-First National Bank	739,000
20. Barnett Credit Services Inc., Jacksonville, Fla.	709,000
21. Sovran Bank, Richmond, Va.	706,000
22. Indiana National Bank, Indianapolis	592,000
23. First Maryland Bancorp, Millsboro, Del.	581,000
24. State Street Bank and Trust Co., Boston	570,000
25. First Interstate Bancard Co., Simi Valley, Calif.	511,000
26. BancOhio, Columbus, Ohio	487,000
27. Rainier National Bank, Seattle	469,000
28. Avco National Bank, Irvine, Calif.	438,000[2]
29. United Virginia Bank, Richmond, Va.	430,000
30. United Missouri Bank of Kansas City	387,000
31. Citizens and Southern National Bank, Atlanta	385,000
32. PNC National Bank, Wilmington, Del.	379,000
33. NBD Bancorp, Detroit	375,000
34. First Tennessee Bank, Memphis	365,000
35. First Bank of South Dakota, Sioux Falls	363,000
36. European American Bank, Uniondale, N.Y.	347,000
37. United Bank of Denver	334,000
38. Goldome FSB, Buffalo	325,000
39. Equibank (Delaware), Wilmington	316,000
40. Connecticut National Bank, Hartford	301,000
41. Colonial National Bank USA, Wilmington, Del.	291,000
42. South Carolina National Bank, Columbia	257,000
43. Wachovia Bank and Trust Co., Winston-Salem, N.C.	255,000
44. Society National Bank, Cleveland	253,000
45. Sovran Bank/Delaware, Dover	245,000
46. AmSouth Bank, Birmingham, Ala.	242,000
47. Meridian Bancorp, Reading, Pa.	210,000
48. Huntington National Bank, Columbus, Ohio	209,000
49. California First Bank, San Diego	198,000
50. Fleet National Bank, Providence, R.I.	192,000
51. Shawmut Bank, Boston	192,000
52. First Pennsylvania Bank, Philadelphia	185,000
53. Bank of Hawaii, Honolulu	148,000
54. First National Bank of Cincinnati	147,000
55. National City Bank, Cleveland	138,000
56. Midlantic National Bank/North, West Paterson, N.J.	132,000
57. Dollar Dry Dock Savings Bank, White Plains, N.Y.	131,000
58. First National Bank of Louisville, Louisville, Ky.	130,000
59. Bank of New England, Boston	110,000
55. Empire of America, Buffalo	93,000
60. First Fidelity Bank, Newark, N.J.	64,000
61. Sanwa Bank California, Los Angeles	42,000
62. Sumitomo Bank of California, San Francisco	41,000

[1] Active accounts.
[2] Avco National has since been acquired by Household Bank NA, Salinas, Calif.
Source: *American Banker.*

Dodd and Heinz Propose Bill Closing Insurance Loopholes

By ROBERT M. GARSSON
Washington Bureau

WASHINGTON — Two influential Senate Banking Committee members today plan to offer a measure to close many of the loopholes that have permitted banks to offer insurance products. The measure would exempt or "grandfather" existing activities.

Committee staffers and other observers have predicted a close vote on the measure, which will be sponsored by Sen. Christopher Dodd, D-Conn., and Sen. John Heinz, R-Pa. The two senators will attempt to add it to the omnibus banking bill during votes scheduled to begin today, an aide to Mr. Dodd said.

Until now, there has been considerable speculation about Mr. Dodd's plans. Many observers have predicted he might not offer the measure.

Opponents of the Dodd-Heinz measure have called it a "killer amendment." Senate Banking Committee Chairman William Proxmire and Sen. Jake Garn, the committee's ranking Republican, are said to be willing to vote against their own bill if the amendment is attatched.

The American Bankers Association, which strongly supports the repeal of the Glass-Steagall Act, has vowed to fight any bill that includes restrictive insurance measures.

The measure Mr. Dodd and Mr. Heinz will offer this week would close the South Dakota loophole, which permits banks to market insurance nationwide through subsidiaries in that state.

It would overturn a ruling by the Comptroller of the Currency that authorized banks to market insurance statewide through offices in towns with fewer that 5,000 people. It would also forbid the transfer of grandfathered insurance rights in bank mergers.

An exemption, that permits banks with less than $50 million in assets to offer some insurance products would be expanded to include banks with less than $65 million in assets.

> The measure would close the South Dakota loophole, which permits banks to market insurance nationwide through subsidiaries in that state.

Mr. Dodd may also offer a substitute for the Glass-Steagall repeal measure being pressed by Mr. Proxmire and Mr. Garn, the Dodd staffer said. The Dodd measure would permit banks to underwrite a number of new securities now, and it would mandate votes on corporate debt and equity underwriting in later years.

The measure is similar to one Sen. Donald Riegle, D-Mich., told committee Democrats he plans to push. Mr. Riegle and Mr. Dodd are still discussing which approach to back, the Dodd staffer said.

Sources are predicting a close vote on efforts to substitute a measure for Mr. Proxmire's Glass-Steagall repeal provision. Many of the same people believe that if Mr. Proxmire prevails on that key issue, the entire multititle bill will be reported out of committee by a substantial margin. ■

Correction

Consumers Union supports a measure that would prevent banks and other lenders from changing the terms of a home equity loan once a credit line is opened for a customer.

Without such a provision, said Michelle Meier, the organization's government affairs counsel, the enhanced disclosure sought in a bill pending before the House Banking Committee would become meaningless. Consumers Union's position was misrepresented in a story, "Progress Expected on Home Equity Disclosure Bill," Feb. 24, page 16. ■

RANDOM THOUGHTS

Continued from Page 1

crash simply exacerbated this weakness. Those banks with the lowest pre-crash ratios suffered the largest absolute declines in market value and also the greatest slippages in value relative to the S&P 500.

Thus such well-known leviathans as Manny Hanny and Chase Manhattan, whose pre-crash ratios hovered around unity, experienced a 44% decline in market worth and a 21% slide vis a vis the S&P 500 from the end of September 1987 to yearend. By contrast, banks like First Wachovia, First Union, and PNC, which sported pre-crash ratios of 1.6 to 1.8, saw absolute market values decline by less than 20% during this period. And relative to the general market, valuation actually improved by a modest 4% to 5%.

By yearend 1987, many of the whales were sitting with stock prices that were once again only 50% to 80% of book values. Some people view these subnormal ratios as a retrenchment signal from the marketplace. After all, why expand, via new equity or retained earnings, when the process destroys value by converting dollar bills into 50-cent pieces?

While that may or may not be its signal to the whales, the marketplace clearly has a different message for a group of banks that are dubbed sharks by the MAC Group. These institutions were bruised but not battered by the events of last October. Such banks — e.g., Banc One, Wells Fargo, Fleet, SunTrust, as well as PNC, First Union, and First Wachovia — retain market-to-book ratios much in excess of unity.

They are thus apparently being encouraged to grow. And since their relative purchasing power has increased not diminished since the crash, their appetite for acquisition may actually have been whetted, though there is the ever-present danger of a feeding frenzy that could lead to self-immolation.

The sharks, in the MAC Group's taxonomy, have both superior market-to-book ratios and a market capitalization in excess of $2 billion. The third class of banks, the dolphins, have ratios in excess of unity but market capitalization of less than $2 billion. These include institutions like CoreStates, MNC, NBD, Midlantic, etc.

The dolphins face both opportunities and risk. Some will grow rapidly enough to qualify as sharks, while others will be taken over by the larger, more ambitious predators. Thus, as a group, the dolphins, ventures the MAC Group, may not long endure.

□ □ □

The whales are not only plagued by the effects of the crash but also by the new federal capital guidelines, with which they are not currently in compliance. Even before the crash, many whales would have found it difficult to raise the required equity. Post-crash, the task is much more arduous. And, as noted, some would suggest that the whales not even try, given their depressed market-to-book ratios.

Whether they should try or not depends on the reasons for the depressed ratio, which may vary from bank to bank. It may be that the market-to-book ratio is low because book value is perceived as fictitious. It may also be that the ratio is low because the marketplace is skeptical of the capacity of a bank to invest new equity in businesses that will earn the threshold rate of return — about 14% or 15% after tax.

If the former is generally the case, the whales, most of which are money center banks, should not be reluctant to try raising the necessary capital. Many banks will not raise equity at less than book value because of the dilutive effects. But if market-to-book ratios are below one because book value is overstated, the raising of new equity, while dilutive in an accounting sense, is not necessarily dilutive in a true economic sense.

If, at the margin, banking is competitively profitable — that is, new equity can be invested in businesses that will fetch rates of return of at least 14% — then the shareholder may be well served if management seeks the new financing.

Suppose, however, that bank profitability has declined so much that most of the whales cannot garner a return on equity from incremental businesses that is large enough to support a future market-to-book ratio of unity or better. Then, quite logically, the whales should retrench, downsizing perhaps to dolphin-like proportions. To attempt to raise equity in these circumstances would indeed be dilutive, in economic as well as accounting terms.

But downsizing carries another risk — that of being taken over as a result of having a lower overall market capitalization. That is why, in this new environment of interstate banking and pinched profitability, the MAC Group identifies most of the whales as potentially vulnerable to acquisition.

Many whales will attempt to downsize, and while they are rebuilding their shrunken business bases on sounder foundations will fall prey, in whole or in part, to the blandishments of the more aggressive sharks — the high-flying superregionals. If, on the other hand, the whales attempt to remain behemoths by raising equity for investment in businesses that do not meet the necessary profit objectives, they will massively dilute their equity, risking shareholder revolt. In either of these scenarios — downsizing or imprudent investment — many more takeovers and takeover attempts can be anticipated.

□ □ □

Sometimes overlooked in the current discussions is the potential impact of the federal capital guidelines and the post-crash market weakness of the whales on the status of the foreign banks. While the money center banks are capital deficient and have low market-to-book and price-earnings ratios, many foreign banks enjoy much greater market acceptance. They can raise equity (first-tier capital) at a much lower cost than can the whales. Will they not use this advantage to stake out an even greater presence in the U.S. marketplace?

Consider the contingent-liability business. Some money center banks have made most of their profits from high-grade commercial customers by selling liquidity-insurance products. This business was considered desirable only because of the absence of capital requirements. Since the proposed regulations mandate a hefty capital charge for liquidity products (including the same charge for financial standby letters of credit as for corporate loans), the business is now viewed as something less than desirable.

Some banks that will be in a substantial capital-deficient first-tier position by 1992 have probably considered brokering letters of credit to superregionals that will find themselves in a capital-surplus position. That is, the money center bank will book the business, take a small fee, and then pass the obligation to perform, should performance be required, downstream to the capital-rich superregional.

Yet one wonders whether the ultimate customer will agree to this arrangement. The superregionals, despite their manifest success and growing market power, are not terribly well known.

Would not the customer be generally more comfortable if the obligation to perform rested with a huge foreign bank rather than with a comparatively unknown regional institution? Hence there is a good likelihood that the bulk of the contingent-liability business will pass, for good or ill, from the money center institutions to foreign entities, if that has not already happened.

Additionally, faced with the requirement to lift capital-asset ratios, the money center banks should redouble their efforts to sell loans. Currently the foreign banks buy perhaps as much as 40% to 50% of the offerings of the money center institutions. In the future, they may be in the market for an even larger proportion.

The foreign banks view this activity in part as a unique opportunity to get hold of the financials of a large number of U.S. companies. Armed with data on an even broader array of borrowers, they can eventually try undercutting the loan originators in order to get first crack at the customer's business.

Thus, the unhappy confluence of post-crash market weakness and regulatory insistence on much more generous capital backing both for on-balance-sheet and off-balance-sheet commitments may work to greatly enlarge the foreign bank presence in the U.S.

If this occurs, it will underscore the problems created by trying to address the question of international capital adequacy without simultaneously eliminating the inequality of business opportunities. Can anyone doubt that it is the ability of foreign banks to participate in high-value businesses from which U.S. entities are excluded that is in no small measure responsible for their superior market acceptance and resultant access to lower-cost capital? ■

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Wherever possible, we would like to print your comments. Please direct them to the editor, William Zimmerman, American Banker, One State Street Plaza, New York, N.Y. 10004, and please include a daytime telephone number. Letters may be edited for reasons of space and clarity.

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